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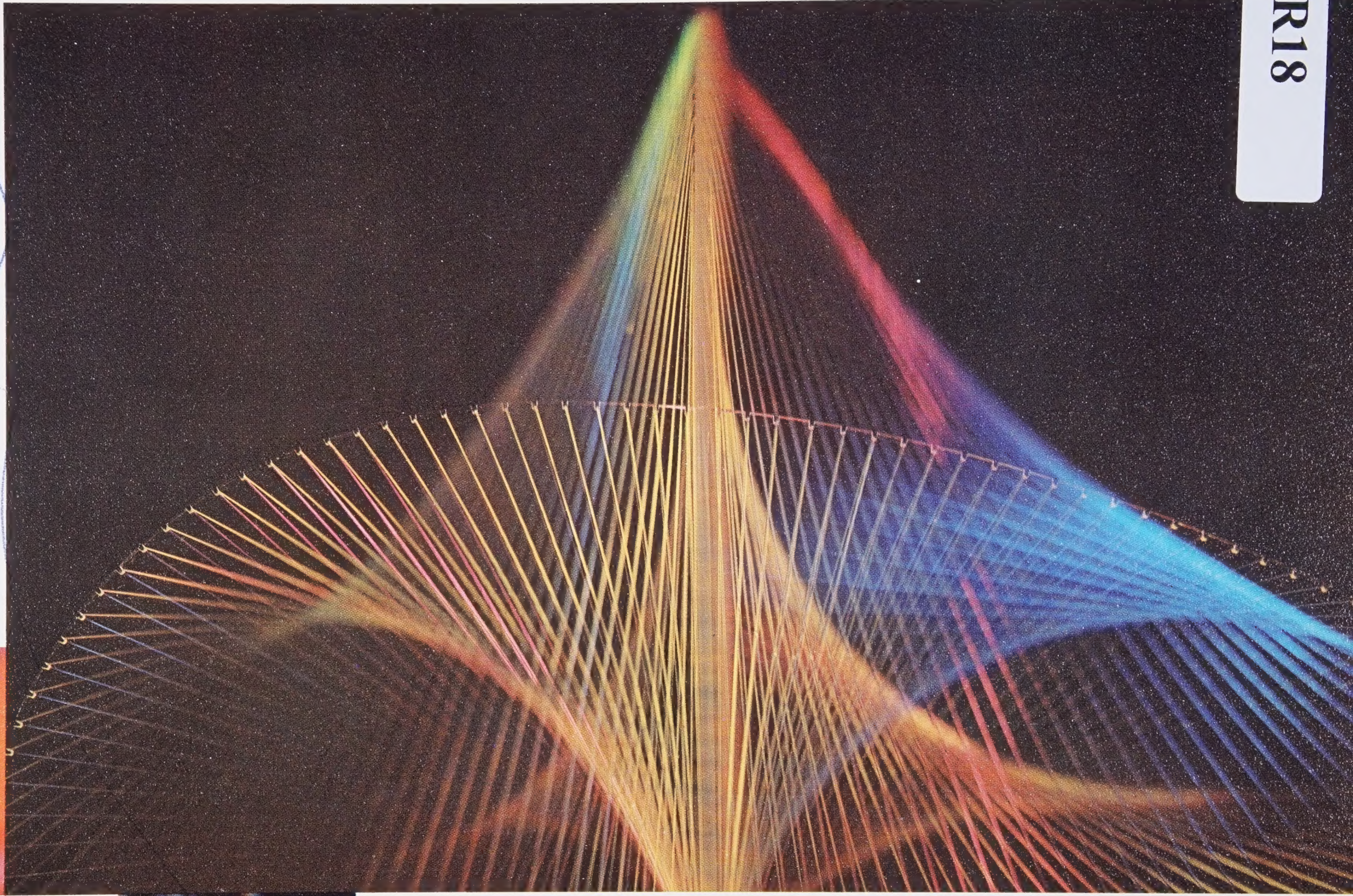

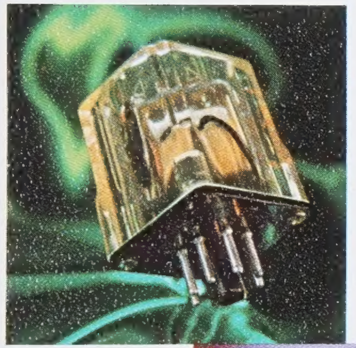

1967
ANNUAL
REPORT

O/E/N

OAK ELECTRO/NETICS CORP

HIGHLIGHTS

	1967	1966
Net Sales	$75,156,159	$74,863,181
Income Before Income Taxes and Moving Expenses	5,179,791	6,199,594
Provision for Income Taxes	2,368,000	2,990,000
Income Before Moving Expenses	2,811,791	3,209,594
Moving Expenses and Related Costs (Net of Taxes)	505,315	—
Net Income	2,306,476	3,209,594
Per Common Share	$2.05	$2.88
Net Income Available for Common Stock, after Deducting Paid and Accrued Preferred Dividends	$ 2,146,466	$ 3,209,594
Per Common Share	$1.90	$2.88
Net Income, after Reflecting Full Year's Requirements for Preferred Stock Dividends	$ 1,951,427	$ 2,854,545
Per Common Share	$1.73	$2.56
Cash Dividends Paid—Common Stock	$ 684,144	$ 530,497
Per Common Share	$ .64	$ .51
Shareholders' Investment	$19,501,866	$18,006,630
Number of Shareholders	4,358	4,115
Number of Employees	7,069	8,434

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The cover design, reproduced from O/E/N's 1967 corporate advertising program, signifies O/E/N's rapidly growing complex throughout the free world . . . serving the expanding electronic components industry.

Concern expressed in the 1966 O/E/N Annual Report with respect to the 1967 economy unfortunately became a reality during the year.

Hesitant spending in both the industrial and consumer sectors of the economy—and the resultant inventory adjustments on the part of our customers—confined O/E/N sales to the 1966 level.

Under normal circumstances, operations of your company would not have been seriously affected. The slackening pace of 1967 orders was anticipated and all operating units embarked on cost reduction programs in February to cushion the impact on profits.

What was not foreseen earlier in the year, however, was an opportunity born of adversity. Lagging sales at Hart Manufacturing Co. provided economic justification to discontinue operations at its outmoded Hartford, Connecticut facility. As a result, the company absorbed $930,000 in pre-tax costs related to termination negotiations with the union, moving expenses, start-up costs to relocate continuing Hart product lines at other O/E/N facilities and inventory adjustments.

While the Hart shutdown obviously affected 1967 results, elimination of this marginal operation is consistent with your company's plans to substantially improve profit margins.

And since O/E/N operates basically on a five-year planning principle, certain key spending programs were also maintained during the year in order to meet long range growth objectives.

THE PRESIDENT'S MESSAGE

Research and new product development activities were accelerated, plant expansion programs maintained and reorganization of other facilities continued as planned in order to maximize O/E/N's participation in the electronics industry's anticipated resurgence.

The combination of all these factors resulted in a significant adverse impact on 1967 profits. Yet events of 1967 showed no basic weaknesses in the O/E/N organization and they further strengthened future profit potential.

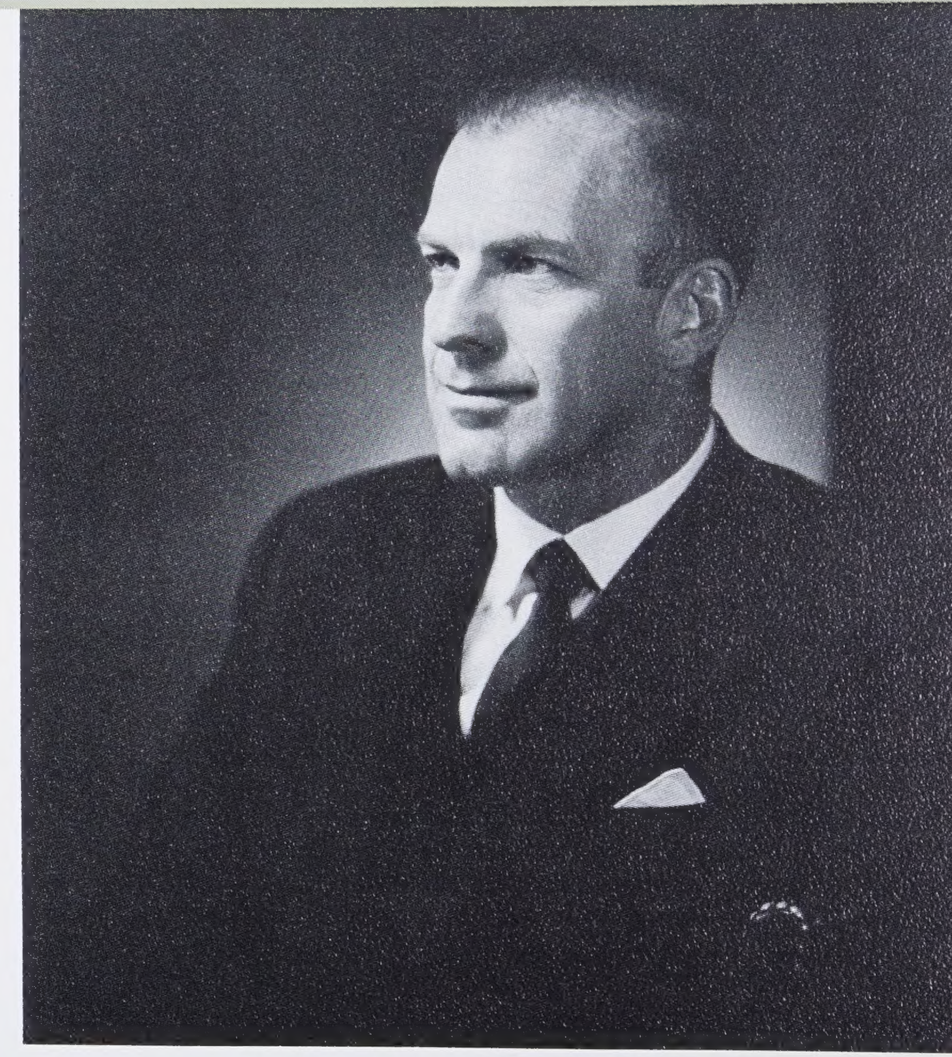
Four acquisitions were made during the year to diversify O/E/N operations within the materials and components field. The acquired companies serve markets new to O/E/N and added combined annual sales of almost $9 million to 1967 volume.

As we began the new year, the economy continued in an indecisive mood. Occasional signs of an upturn were obscured by concern over pending economic and political developments.

Even lacking a noticeable strengthening in overall GNP growth, the absence of extraordinary charges alone in 1968 should permit substantial improvements in the current year over your company's performance in 1967.

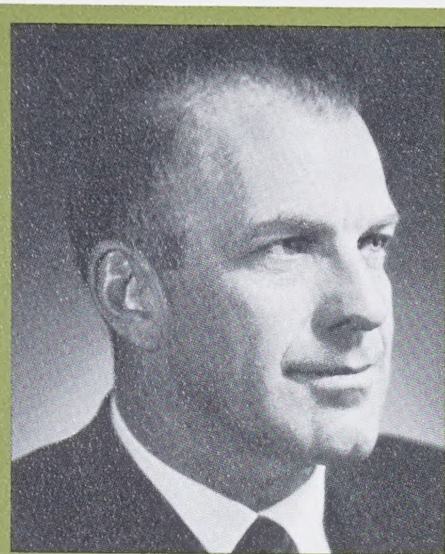
February 23, 1968

E. A. Carter



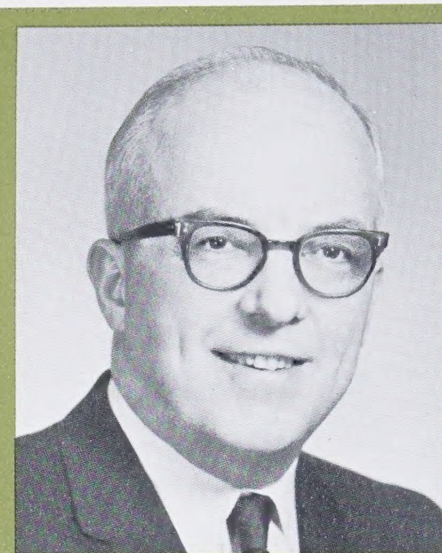
E. A. Carter, *President and Chairman*

DIRECTORS



E. A. CARTER
Chairman of the Board
and President

F. A. ASTROLOGES
Executive Vice President



R. T. McTIGUE
Senior Vice President

N. DYKSTRA
Vice President and Director
Domestic Operations

BOARD OF DIRECTORS

Executive Committee
G. B. Hamilton, Chairman
A. A. Morey
N. Waite
E. A. Carter

Chairman of the Board and President
E. A. Carter

Audit Board and Executive Compensation Committee
A. A. Morey, Chairman
N. Waite
G. B. Hamilton

Executive Vice President
F. A. Astrologes

Senior Vice President
R. T. McTigue

Vice President & Director, Domestic Operations,
N. Dykstra

Vice President, Corporate Development
M. H. Cooper

Vice President, Corporate Relations
J. Cassato

Vice President, International Marketing
R. W. Peirce

Vice President & Director, International Operations
C. J. Bradshaw

STAFF

Secretary
E. C. Wolf

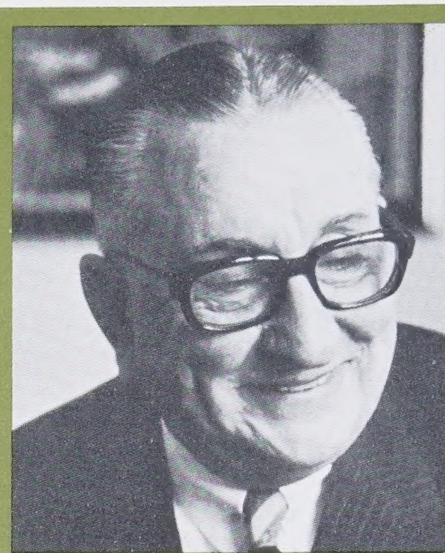
Treasurer
R. D. Wilber

Corporate Controller
L. Wodetski

G. B. HAMILTON
President, Dodge Industries, Inc.

H. W. PETHERICK
Chairman, Diamond H Controls Ltd.

L. W. McCOY
President, McCoy Electronics Co.



A. A. MOREY
Chairman, Marsh & McLennan, Inc.

N. WAITE
Partner, Schiff Hardin Waite Dorschel & Britton

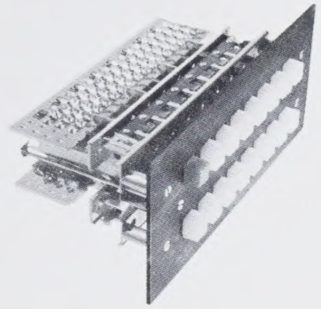
OPERATIONS

A. K. Cook, President, Marco-Oak Industries
J. A. Carley, President, Los Angeles Miniature Products, Inc.
E. H. Tumbusch, President, Techno-Components Corp.
E. M. Keys, President, Oak Manufacturing Co.
G. B. Hamilton, President, Dodge Industries, Inc.
L. W. McCoy, President, McCoy Electronics Company

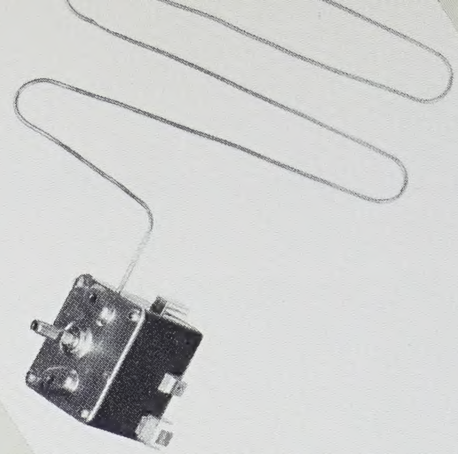
E. D. Chalmers, President, Oak Television Products Division
W. D. Scholten, President, Oak Switch Products Division
C. R. Frost, President, Hart-Advance Relay Division
G. H. Eberhart, President, Hart Indiana

I. S. Petherick, Managing Director, Diamond H Controls Ltd.
S. K. Govaars, Managing Director, Oak Electro/netics Holland N.V.
R. H. Dale, Managing Director, Diamond H Switches (S.A.) Pty., Ltd.
W. R. Koester, Director, Far Eastern Operations
R. W. Peirce, President, Oak-Hart Manufacturing (Canada) Ltd.

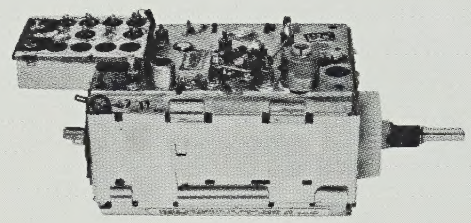
S. Hu, Vice President & General Manager, Oak Electro/netics Corp. (Hong Kong) Ltd.
D. A. Elger, General Manager, O/E/N Korea Co., Ltd.
S. Nitta, President, Japan Electro Components Company, Ltd.
E. Nagato, General Manager, Oak Electro/netics Corp. (Japan) Ltd.



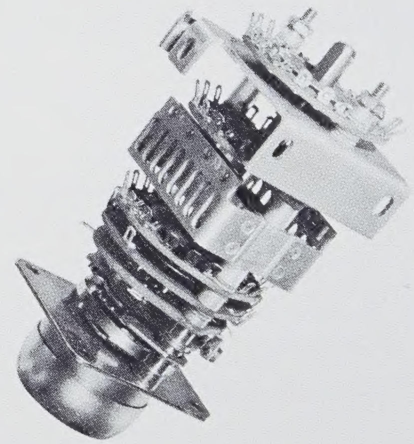
PUSHBUTTON SWITCHES



THERMOSTATS



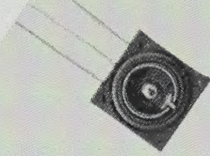
TELEVISION TUNERS



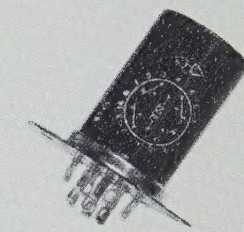
ROTARY SOLENOIDS

Products of O/E/N companies, widely diverse in application, are similar in that they perform or relate to switching functions or control of electronic and electrical signals.

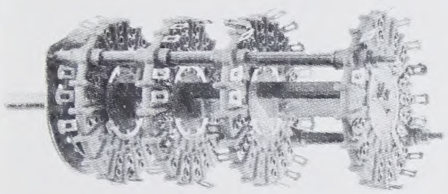
Companies within the O/E/N organization are continually expanding their fields of interest to serve growing segments of the industrial, military and consumer electronics industry with both components and basic materials and fabrics.



MINIATURE TRIMMING
POTENTIOMETERS



RELAYS

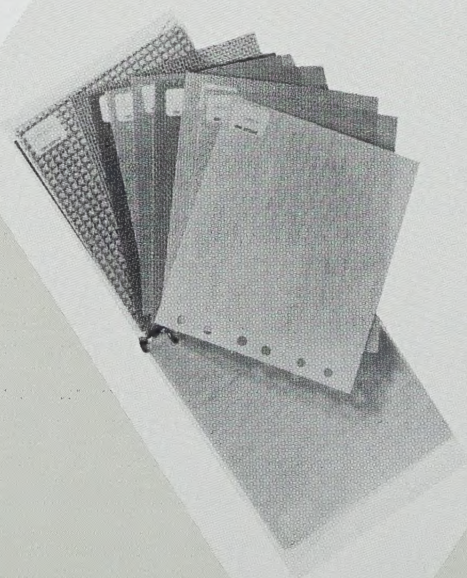


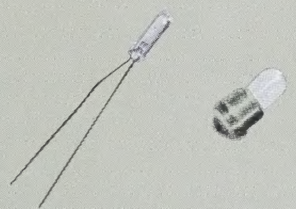
ROTARY SWITCHES

INDICATOR LIGHTS

QUARTZ CRYSTALS, FILTERS, OSCILLATORS

MATERIALS
AND FABRICS





MINIATURE
AND SUBMINIATURE
INCANDESCENT LAMPS

THE O/E/N PERFORMANCE

SALES

Consolidated net sales reached a record $75,156,159, up slightly from the $74,863,181 reported in 1966.

The flat volume performance was principally attributable to weakness in the general economy and in the consumer electronics industry particularly.

EARNINGS

In addition to softness in sales, earnings were affected by the unusually high level of moving expenses incurred for the consolidation of some plant operations and expansion of others.

The major portion of the moving charges, totaling $930,000 pretax, is directly attributable to the August shutdown of Hart Manufacturing Co. and the transfer of its major product lines to four other O/E/N facilities in Elkhorn, Wisconsin; Crystal Lake, Illinois; Anaheim, California, and Aurora, Ontario, Canada.

Net income before moving expenses and related costs, and preferred dividends, declined 12 per cent to $2,811,791, or $2.50 per share on 1,127,747 average number of common shares outstanding during the year. Earnings in 1966, restated to give effect to pooling-of-interests treatment, but before preferred dividend requirements for companies acquired in 1967, were $3,209,594, equivalent to $2.88 per share on 1,115,755 average number of common shares outstanding.

On a net basis, moving expenses amounted to $505,315, equivalent to 45 cents a share, reducing total net income for 1967 to $2,306,476, or $2.05 per share.

Pooling-of-interests treatment assumes that companies acquired during a given year, regardless of when such acquisitions took place, be treated as though they have always been a part of the consolidated group of O/E N companies. Therefore, our 1967 financial statements include the results of the acquired companies for the entire year.

During 1967, two of the four companies were acquired by O/E/N through the issuance of convertible preferred stock as part of the purchase price. These acquisitions were completed in July and October.

The pooling treatment of companies acquired for preferred stock calls for recognition of a full year's dividend requirements on such shares issued in connection with acquisitions.

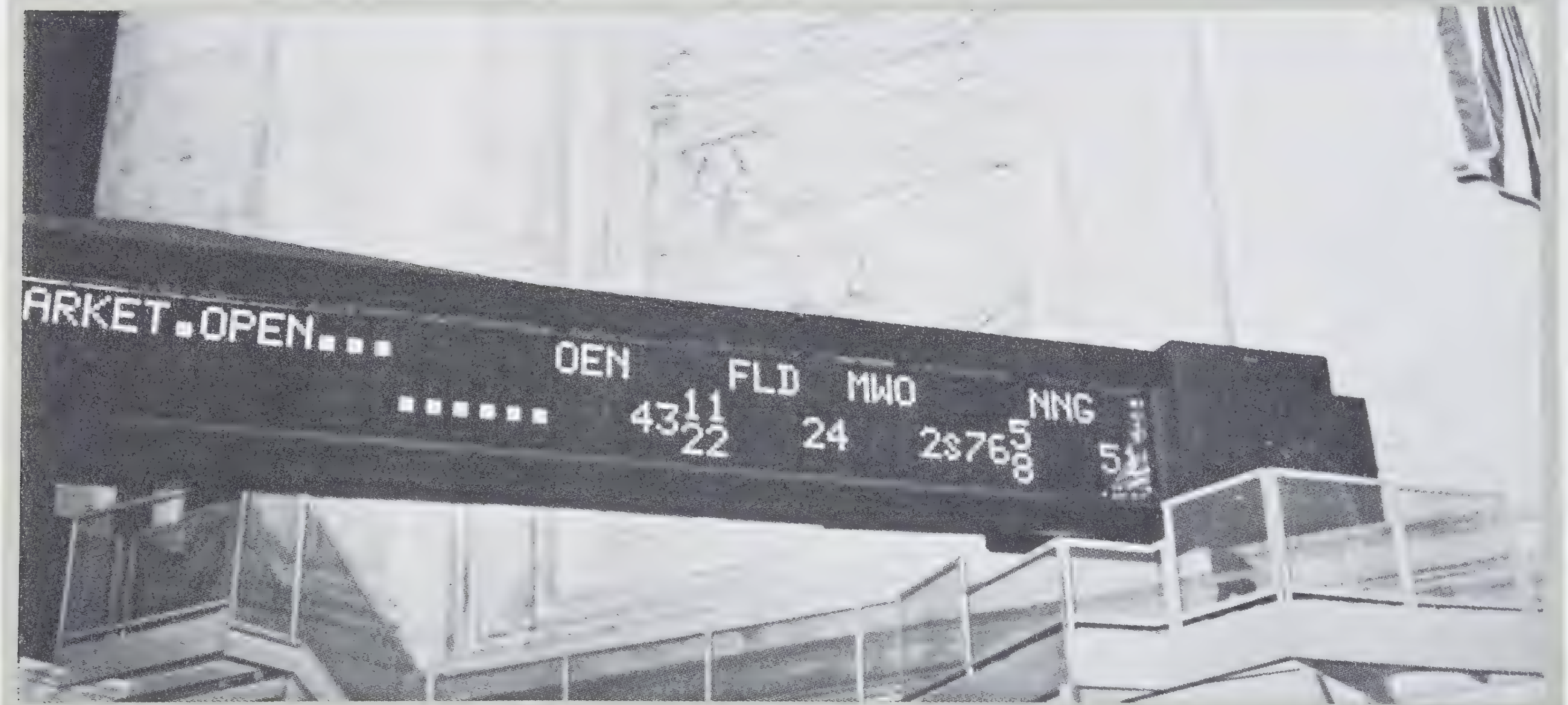
As a result, net income available for common stock, after giving effect to $355,049 in preferred dividends (even though only $160,010 was actually paid and accrued in 1967), amounted to $1,951,427, or $1.73 per common share. On the same basis, 1966 earnings would be restated at $2,854,545, or $2.56 per share.

DIVIDENDS

On January 26, 1967, the quarterly dividend rate on the common stock was increased for the fifth consecutive year, from 14 cents to 16 cents per share. The 64 cents annual rate was continued throughout the year.

FINANCING

On March 22, 1967, the company received proceeds from its offering of $10 million, 4 3/8 per cent Convertible Subordinated Debentures. Proceeds of the loan were used to repay short term bank loans of approximately $8 1/2 million and to provide additional working capital.



NEW YORK STOCK EXCHANGE

Both the bonds and the company's common stock were admitted to trading on the New York Stock Exchange on May 19, 1967. Listing of O/E/N's securities on the world's largest stock exchange marked a significant milestone in the company's continuing planned growth.

MARKET SALES SHOW BETTER BALANCE

Sales to principal markets in 1967 showed lessening dependence on television tuners. The decline is due, in part, to lower television set sales during the year and also reflects the impact of approximately $9 million in acquired volume during the year.

	1967	1966	1965	1964	1963
Television Tuners	31%	34%	35%	35%	28%
Industrial Electronics	31%	31%	27%	27%	32%
Appliance Controls	8%	7%	12%	15%	16%
Military Electronics	21%	15%	15%	16%	16%
Other Consumer Components	9%	13%	11%	7%	8%

The benefits of O/E/N's new product development and acquisition programs are evident in an analysis of O/E/N's volume growth in the past seven years. With 1960 serving as the base year, and representing 24 per cent of 1967 volume, 32 per cent of O/E/N's volume has come from acquisitions and 44 per cent is attributable to internal growth—new product introductions and greater market penetration with existing product lines.

BACKLOG

O/E/N entered 1968 with a $17.8 million backlog, down from the nearly $25 million a year earlier. More than 80 per cent of the orders on hand at year end were shippable within 120 days, reflecting the cautiousness with which customers entered 1968 resulting from inventory adjustment requirements throughout 1967.

MARKET POSITIONS STRENGTHENED BY ACQUISITIONS

During the year, O/E/N acquired four companies for preferred and common stock.

Dodge Industries, Inc., Hoosick Falls, New York, and Nalan, Inc., Woonsocket, Rhode Island, were acquired in July for approximately $6 million (59,998 shares) of $4.375 Convertible Preferred Stock. Dodge produces a wide variety of Teflon products for electronics, electrical and general industrial use. Nalan is a processor of plastic raw materials, principally for electronics and electrical applications.

In October, Los Angeles Miniature Products, Inc. of Gardena, California, was acquired for a combination of 52,890 shares of common stock and 21,156 shares of $4.375 Convertible Preferred Stock. LAMPS produces a wide range of miniature and subminiature incandescent lamps for electronics, aircraft and missile applications.

The business and assets of Techno-Components Corp. of Van Nuys, California were acquired in December for 20,000 shares of common stock. Techno-Components produces miniature and wire wound trimming potentiometers and miniature test connectors for commercial and military applications.

The acquired companies are related to markets not previously served by O/E/N.

RESEARCH AND DEVELOPMENT ACTIVITIES

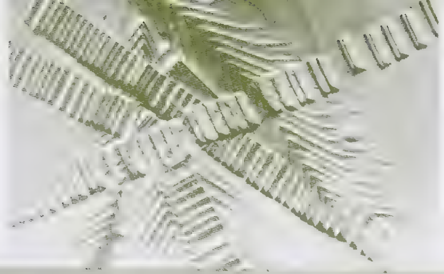
During 1967, O/E/N's research and development efforts at Madison, Wisconsin gained momentum.

Dr. Leo Jedynak was named Director of O/E/N's Research and Development activities to direct specific research projects in conjunction with the University of Wisconsin's faculty and graduate student personnel affiliated with O/E/N under Wisconsin's University-Industry Research Program. Dr. Jedynak is on sabbatical leave as an Associate Professor of Electrical Engineering for the school.

In November, O/E/N broke ground for a new research and development laboratory in Madison. The 7,200 square foot facility, on a five acre site one mile southwest of Madison, is the first research center to be constructed there by a firm participating in the UIR program. Completion is scheduled for April 1968.

Total engineering, research and development costs for new and improved products and the modification of basic product designs to meet customer requirements amounted to $2,690,677 in 1967, a 25 per cent increase over the $2,149,213 spent in 1966.

O/E/N's budgeted expenditures for these activities in 1968 amount to $2,744,000 in a continuation of product diversification and development programs to meet new market demands.



DOMESTIC

MANAGEMENT

During the year, Frank A. Astrologes was elected Executive Vice President, a newly-created position. Mr. Astrologes, formerly Financial Vice President, continues as chief financial officer.

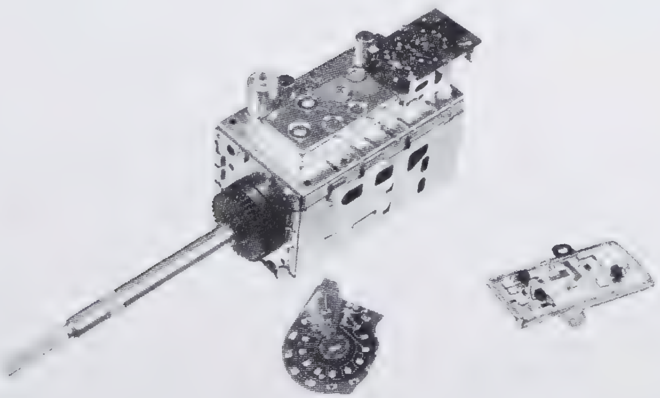
Robert T. McTigue was elected Senior Vice President and was succeeded as Vice President and Director of Domestic Operations by Nicholas Dykstra, who served as President of Hart Manufacturing Co. until its operations were terminated in August.

Raymond W. Peirce was elevated to Vice President, International Marketing, and Lewis A. Wodetski was named Corporate Controller.

NEW PRODUCTS BEGIN TO SHOW PROMISE

During 1967, O/E/N began to reap tangible benefits from its R & D efforts and entered 1968 on the threshold of the most prolific new product year in the company's history.

In late 1967 and early 1968, O/E/N introduced three entirely new solid state television tuning concepts: 1) An all-channel VHF-UHF tuner; 2) An integrated circuit VHF tuner; and, 3) A printed inductance production technique.



The new concepts were well received by customers and production is scheduled to begin late in 1968.

These new units will enable customers to buy color or black and white television sets that are easier to tune, are capable of delivering a better picture, are smaller and less expensive—and which contain fewer parts. For example: with an Oak all-channel design a viewer can tune both VHF (Channels 2 through 13) and UHF (Channels 14 through 83) with the same control knob.

With Oak's new "thick-film" integrated circuit tuner module, nearly all discrete parts are removed from the basic tuner chassis assembly. In place, a tiny metal box—housing integrated circuit components —is mounted atop the tuner chassis.

The printed inductance switch sections replace virtually all air-wound coils which normally are hand assembled and individually adjusted, with a flat spiral coil imprinted onto the sections of the basic channel selector switch. This technique permits mass production with high uniformity at substantially lower costs and improved performance and precision.

In England, Diamond H Controls introduced two solid state devices—one a temperature control unit for industrial applications such as ovens and furnaces, photo copy equipment, and plastic molding equipment, and the other a motor speed control for the domestic appliance market.

Also recently introduced is a new low cost, high performance readout lamp for readout devices which are fast replacing analog meters in panel systems. The new lamp will enable Los Angeles Miniature Products to enter a $10 million market not previously served by the company.

LAMPS has also introduced a small neon lamp which can operate at any voltage for high density computer panel applications.

OPERATIONS

Domestic O/E/N operations continued as the major contributor to corporate sales.

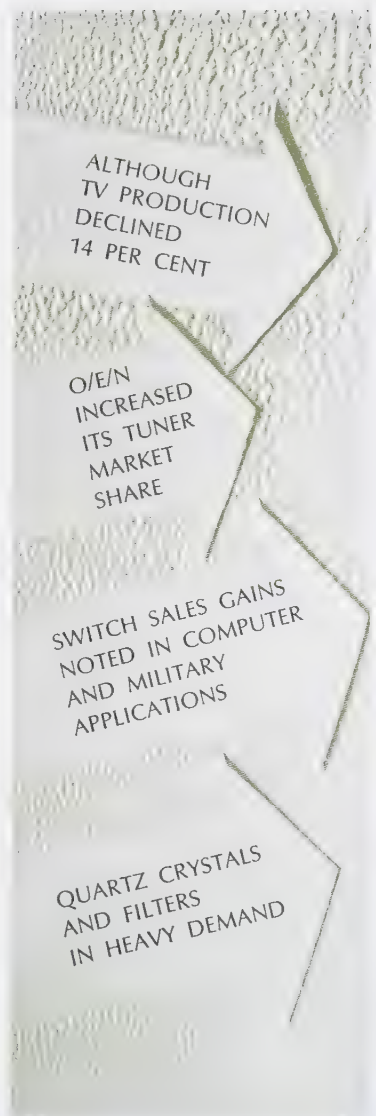
Despite lagging sales generally, O/E/N domestic companies were able to maintain and even increase market penetration in key product areas, notably television tuners, rotary and pushbutton switches, and quartz crystals and filters.

The Oak Division, largest in the O/E/N complex, was able to withstand the effects of the year's television set sales slowdowns due to its ability to capture a slightly greater share of the VHF tuner market through more concentrated programs with key customers.

The Oak Division's share of the total VHF tuner market in 1967 increased to 34 per cent, compared with 32 per cent a year earlier. This performance was achieved despite a 14 per cent decline in U.S. set production during the year from 1966 levels.

And while total sales of all Oak switch products were held at 1966 levels, increases were noted in the types of units for such key, growing markets as computers, automated production equipment and business machines, missile controls and instrumentation systems. Pushbutton switches, for example, showed an increase of 15 per cent for the year, principally for computer applications, while the one-half inch rotary switch, used principally in military applications, increased 155 per cent.

The Oak Division was restructured during the year to establish separate operating entities for each of its tuner, switch, relay and fabrication operations. Each group, operating under its own president, will coordinate and concentrate engineering and marketing efforts in promising product areas, thus accelerating potential growth.



As part of this reorganization, a 20,000 square foot plant addition was scheduled for completion at Hart Indiana, Mishawaka, in September 1968. The new facility is designed to consolidate high volume and secondary stamping operations of the Oak Division, expand sales of stamping to outside customers and provide a major base for Oak tooling requirements.

McCoy Electronics Company reported substantial sales and profit gains in 1967, reflecting growing acceptance of its quartz crystal and crystal filter lines of high quality, high frequency components.

McCoy continues to participate in virtually every military and aerospace system developed in the past seven years, including the Apollo, Surveyor and Saturn program.

Techno entered 1968 with a backlog triple that at the beginning of 1967. Production facilities and capabilities are adequate to meet anticipated higher production levels.

Since its founding in 1961, Los Angeles Miniature Products has pioneered the development of subminiature high density incandescent lamps. Ability to lead the industry in design concepts has provided the company with an excellent market position. Approximately 40 per cent of 1967 volume came from proprietary products—lights which cannot be produced by other manufacturers.

Principal application for LAMPS' products are for commercial and military aircraft. An estimated 80 to 85 per cent of the company's output is for aircraft panels.

In August, the Hart-Advance Relay Division was established in Elkhorn, Wisconsin, to produce the relay line formerly manufactured by Hart Manufacturing Co. in Hartford, Connecticut.

Among the newly acquired companies, Techno-Components' line of trimming potentiometers offers a unique combination of extreme high reliability in the industry's smallest packages.

Techno's ability to meet military requirements for performance, weight and size contributed to its 1967 sales gains. In February, the company became the first in its field to gain government approval for a 3/8 inch unit and shortly thereafter became the principal supplier of trimming potentiometers to General Dynamics Corp. for the Standard Arm Missile Program.

Operations of Dodge Industries were affected throughout the year as the company underwent extensive plant reorganization moves in Hoosick Falls, New York.

Dodge constructed two new plants in the area, one a 15,000 square foot facility for its Circuit Materials Division; the other a 30,000 square foot plant for offices and the manufacture of several Teflon product lines.

Employee relations remained excellent throughout the year as evidenced by a continuing preference for union-free relationships by more than 84 per cent of U.S. employees.

Only one labor contract was negotiated in 1967. Two contracts, covering employees in Elkhorn, Wisconsin, and those at the relay assembly facility in Puerto Rico, are scheduled for 1968.

Although employment levels declined in 1967, total O/E/N salaries and wages increased to $27,314,729 from $26,689,999 a year earlier, reflecting continuance of the company's progressive wage policies at all operating companies.

Within a year after installation, the Oak Division's System 360 Computer was fully programmed for ten major applications, including large volume data efforts such as factory cost and production control reporting, plant and office payrolls and inspection analysis reporting.

Totally, 223 programs were written in System 360 languages during the year and programming emphasis in 1968 will be in control and measurement of production operations.

New world enthusiasm and interest blend in an old world atmosphere . . . evidenced at O/E/N Korea during its 1967 plant dedication ceremonies and tour.

Expansion of Far Eastern activities and operations continued in three areas during 1967.

▲ In October, a 25,000 square foot plant was dedicated near Seoul, Korea, for the assembly of VHF television tuners.

A 50 per cent expansion of the facility is scheduled for the assembly of other O/E/N components pending clarification of recently announced government restrictions on overseas investments by U.S. companies.

The new company, known as O/E/N Korea, was established as a controlled operating subsidiary of O/E/N with a minority interest held by Hyun Dai Construction Co., an internationally-known Korean firm.

The company's investment in Korea is guaranteed by the Federal government's Agency for International Development which provides protection for U.S. companies against financial losses arising from war, civil insurrection and expropriation.

▲ Earlier in the year, the 84,000 square foot Hong Kong facility was expanded to 93,000 square feet to house fabricating operations. The Hong Kong integration is part of a long-range program to locally source and fabricate a greater number of piece parts used in the assembly of television tuners.

In November, O/E/N and Murata Manufacturing Co. of Kyoto, established a joint venture company in Japan for the manufacture and marketing of quality components for the domestic Japanese market.

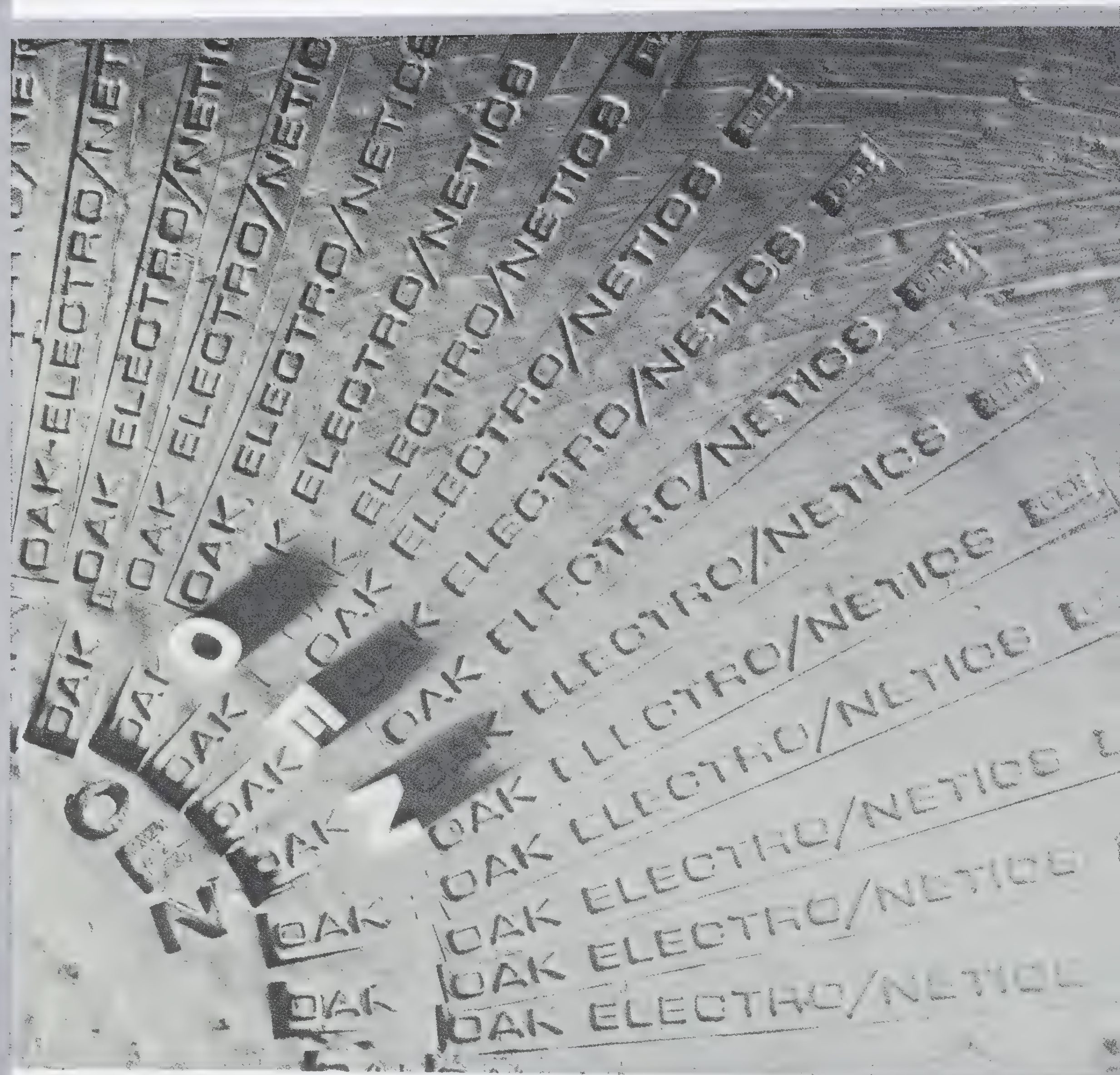
The joint venture company was named Japan Electro Components Ltd., with Murata assuming a 51 per cent ownership interest and O/E/N holding the balance.

Located in Hachioji, Japan, 40 miles from Tokyo, in a 22,000 square foot facility, the plant was formerly occupied by Noble-Oak KK, originally organized as a joint venture by O/E/N and another Japanese company with an initial capitalization of $600,000.

The results of Diamond H Controls in England and Diamond H Switches in South Africa both exceeded projections in the face of declining economies. Growing sales of O/E/N products, in addition to historical appliance control lines of these companies, reflects continued success in O/E/N's program to broaden its product base through diversification, while maintaining strength in primary products.

Primary international emphasis during 1968 will be placed on further diversification through new product development activities within each division, increased penetration of industrial, military and consumer control markets by the addition of U.S. manufactured O/E/N products to existing lines and realignment and expansion of sales and distributor networks.

Market studies indicate a trend in Far Eastern and European markets to more reliable components in product areas previously dominated by low-cost products. This affords an excellent opportunity for O/E/N products which enjoy a world-wide reputation for high quality components.



FINANCIAL SECTION

The company ended the year in an excellent financial position. Shareholders' investment increased to $19,501,866, compared to $18,006,630 last year.

Earnings reinvested in the business amounted to $1,462,322, representing 63 per cent of 1967 net income. The balance, $844,154 was paid to shareholders as dividends on both common and preferred stock and represented a 59 per cent increase over the $530,497 in common dividend disbursements in 1966.

The change in debt structure, resulting from the sale in March, 1967 of $10 million in Convertible Subordinated Debentures, principally accounted for the increase in the current ratio to 3.5 in 1967, compared to 1.6 in 1966. Proceeds from the sale of the bonds were used to repay short term bank borrowings which amounted to $8,640,000 on March 1, 1967, and to provide additional working capital. Replacement of short term obligations with debt financing contributed to the increase in working capital at December 31, 1967, to $22,270,075, 83 per cent higher than the $12,193,604 reported in 1966.

Also related to the debt financing, return on average invested capital in 1967 was 12.30 per cent, compared with 19.42 per cent in 1966.

During the year, capital expenditures amounted to $3,242,907, compared with $3,067,274 in 1966. Expenditures in 1968 for new plant and equipment are expected to approximate $4,000,000. A substantial portion of the 1968 capital program will support tooling programs for new products, and building and equipping the Research Center in Madison, Wisconsin.

Inventories at December 31, 1967, were approximately $1,100,000 less than a year previous and stood at $16,819,523 at year end, reflecting progress in cost control programming begun late in 1966. Cost control efforts also contributed to a 4 per cent increase in gross profits, a credible performance in view of marketing conditions throughout the year.

Higher fixed costs in the general and administrative area and greater research and development expenditures offset these gains.

O/E/N will continue its cost control programs, particularly as they relate to inventory turns, average inventory dollars, cost of sales elements, and individual items of selling, engineering and administrative expenses.

DEVALUATION

Losses in the value of assets of Diamond H Controls in England as a result of devaluation of the pound sterling on November 18, were offset, for the most part, by a forward hedge in sterling.

Devaluation of the Hong Kong dollar by approximately 6 per cent had minimal effect upon our financial results since most of the company's Hong Kong transactions are pegged to U.S. dollars.

Protection against possible further devaluation of sterling has been obtained by additional hedging in 1968.

To the Stockholders and
the Board of Directors,

OAK ELECTRO/NETICS CORP

We have examined the consolidated balance sheets of OAK ELECTRO/NETICS CORP. (a Delaware corporation) and subsidiaries as of December 31, 1967 and 1966, and the related consolidated statements of income, paid-in surplus and retained earnings, and funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The 1966 financial statements have been restated to include the consolidated financial statements of companies acquired on poolings-of-interests basis as discussed in Note 2; the 1966 financial statements of certain of these companies were not examined by us, but we were furnished with the reports of other auditors thereon.

In our opinion, based upon our examination and the reports of other auditors, the accompanying consolidated balance sheets and consolidated statements of income, paid-in surplus and retained earnings, and funds present fairly the financial position of OAK ELECTRO/NETICS CORP. and subsidiaries as of December 31, 1967 and 1966, and the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the years.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 12, 1968.

ASSETS

	1967	1966 (Note 2)
CURRENT ASSETS:		
Cash	$ 3,617,402	$ 2,855,538
Receivables, less reserve of $333,000 in 1967 and $284,000 in 1966	10,580,825	11,286,926
Inventories, at the lower of first-in, first-out cost or market	16,819,523	17,957,251
Total current assets	$31,017,750	$32,099,715
PLANT AND EQUIPMENT, at cost:		
Land	$ 1,161,564	$ 925,140
Buildings	8,894,631	7,954,193
Machinery and equipment	12,881,605	12,259,340
	$22,937,800	$21,138,673
Less-Accumulated depreciation	9,093,601	8,354,370
	$13,844,199	$12,784,303
OTHER ASSETS:		
Investments in affiliated companies (Note 1)	$ 420,859	$ 68,803
Prepaid insurance, interest, etc.	575,787	522,915
Patents, at cost, less amortization	134,031	156,964
Unamortized debenture expense (Note 3)	238,444	—
	$ 1,369,121	$ 748,682
	$46,231,070	$45,632,700

The accompanying notes are

LIABILITIES

	1967	1966 (Note 2)
CURRENT LIABILITIES:		
Notes payable to banks	$ 775,000	$ 8,404,985
Current portion of subsidiaries' long-term debt	134,541	71,195
Accounts payable and accrued expenses	7,304,687	9,152,359
Accrued income taxes	533,447	2,277,572
Total current liabilities	$ 8,747,675	$19,906,111
DEFERRED INCOME TAXES	$ 500,100	$ 484,900
LONG-TERM DEBT:		
4 3/8% subordinated convertible debentures (Note 3)	$10,000,000	$ —
5% note payable (Note 3)	6,500,000	6,500,000
Notes payable of subsidiaries, payable in variable annual amounts to 1986, less amounts due within one year	697,713	396,741
	$17,197,713	$ 6,896,741
MINORITY INTEREST IN CONSOLIDATED SUBSIDARIES	$ 283,716	$ 338,318
SHAREHOLDERS' INVESTMENT (Notes 2, 3 and 5):		
Cumulative convertible preferred stock, $5 stated value, authorized 400,000 shares, issued 81,154 shares (liquidating preference $8,115,400) (Note 4)	$ 405,770	$ 405,770
Common stock, $1 par value, authorized 2,000,000 shares, 1,135,918 shares issued in 1967 and 1,120,518 in 1966	1,135,918	1,120,518
Paid-in surplus	1,383,048	1,335,578
Retained earnings	16,634,913	15,172,591
Less-Treasury stock, at cost (2,650 shares in 1967 and 1,950 shares in 1966)	(57,783)	(27,827)
	$19,501,866	$18,006,630
	$46,231,070	$45,632,700

Notes to Consolidated Financial Statements

(1) PRINCIPLES OF CONSOLIDATION:
The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The accounts of foreign subsidiaries have been included in the consolidated financial statements on the basis of the official rates of exchange except plant and equipment, capital stock and surplus which have been converted at historical rates, where applicable. It is the Company's policy to provide for deferred Federal income taxes which will be payable upon the subsequent distribution of the earnings of certain foreign subsidiaries. The investments in affiliated companies have been adjusted to underlying book value at December 31, 1967, and their net loss is included in the consolidated statement of income.

(2) POOLINGS OF INTERESTS:
During 1967, the Company exchanged 81,154 shares of cumulative convertible preferred stock and 72,890 shares of common stock for the business and net assets of several companies. These transactions have been accounted for on poolings-of-interests basis, and the accompanying consolidated financial statements for the year ended December 31, 1967, include the statements of the acquired companies for that portion of the year prior to the date of acquisition. The accompanying consolidated financial statements for 1966 have been restated to include the acquired companies.

(3) LONG-TERM DEBT:
The 4 3/8% convertible subordinated debentures are due $1,000,000 annually commencing March 1, 1978. The debentures are convertible at any time prior to maturity, unless previously redeemed, into common stock of the Company at a conversion price of $40 per share subject to adjustment in certain events.

Paragraphs 8 and 9 of Opinion No. 10 of the Accounting Principles Board (APB), which provide for recognition and amortization of debt discount equivalent to the value of the convertibility feature of convertible debt, have been suspended by the APB pending issuance of a revised opinion. There would be no material effect upon net income for the year if future action by the APB required retroactive recognition of such debt discount on the convertible subordinated debentures issued by the Company in 1967.

The 5% note payable is due $400,000 annually from 1969 through 1983 and $500,000 in 1984.

The debt agreements provide certain restrictions upon the payment of cash dividends and the purchase or redemption of any class of stock. At December 31, 1967, $4,655,000 of consolidated retained earnings was not subject to these restrictions.

an integral part of these balance sheets.

Notes continued

(4) CUMULATIVE CONVERTIBLE PREFERRED STOCK:

Dividends on the preferred stock are cumulative at $4.375 per share. Preferred shares are callable at $100 per share at the option of the Company anytime subsequent to June 30, 1972. Based upon shares outstanding at December 31, 1967, the total call price would be $8,115,400. The 81,154 shares of preferred stock are convertible into 187,008 shares of common stock. Each share of preferred stock is entitled to 1/2 vote.

(5) STOCK RESERVATIONS:

Under stock option plans, 53,694 shares of the Company's common stock are reserved for issuance to officers and key employees. During 1967, no options were granted and options to purchase 11,275 shares at $11.27 per share, 2,875 shares at $11.40 per share, and 1,250 shares at $18.42 per share were exercised. At December 31, 1967, options for 53,694 shares were outstanding.

As of December 31, 1967, 437,008 shares of authorized and unissued common stock are reserved for issuance on conversion of the 4 3/8% convertible subordinated debentures and the convertible preferred stock.

(6) PENSION PLANS:

The Company has a pension plan which covers substantially all salaried employees. Obligations under the plan are funded on a level premium basis and both past and future service benefits are funded currently by a group annuity contract with an insurance company. During 1967, the Company provided $210,052 for the plan. Certain subsidiaries have retirement plans and during 1967, $83,657 was provided for these plans. Two of the plans have minor amounts of unfunded past-service costs.

(7) NET INCOME PER SHARE OF COMMON STOCK:

Net income per share of common stock ($1.73 in 1967 and $2.56 in 1966) is based on the average number of shares outstanding during each year, after recognition of a full year's dividend requirements on the preferred shares issued in 1967 in connection with acquisitions accounted for as poolings of interests.

If the outstanding $4.375 cumulative preferred shares and the 4 3/8% convertible subordinated debentures were converted into common shares at the conversion ratios in effect at December 31, 1967, pro forma net income per share, reflecting issuance of 437,008 shares on conversion and eliminating the related interest and preferred dividend would not be materially different from net income per share computed without reflecting such conversion. Pro forma net income per share would be as follows:

	1967	1966
Income before moving expenses	$1.97	$2.46
Moving expenses (net of tax)	(.33)	—
Net Income	$1.64	$2.46

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1967 and 1966 (Note 2)

	1967		1966	
NET SALES	$75,156,159		$74,863,181	
COST OF SALES	56,506,323		57,065,421	
Gross income	$18,649,836		$17,797,760	
SELLING, ENGINEERING AND ADMINISTRATIVE EXPENSES	12,959,279		11,304,024	
Income from operations	$ 5,690,557		$ 6,493,736	
OTHER INCOME (EXPENSE), net:				
Interest expense	$ (863,560)		$ (639,484)	
Miscellaneous, net	352,794		345,342	
	$ (510,766)		$ (294,142)	
Income before income taxes and moving expenses	$ 5,179,791		$ 6,199,594	
PROVISION FOR INCOME TAXES	2,368,000		2,990,000	
		Per Share		Per Share
Income before moving expenses	$ 2,811,791	$2.50	$ 3,209,594	$2.88
MOVING EXPENSES and other costs related to relocation of the Hart Manufacturing Co. facility, net of applicable Federal income taxes of $425,000	505,315	(.45)	—	—
Net income	$ 2,306,476	$2.05	$ 3,209,594	$2.88
Actual preferred dividends		(.15)		—
		$1.90		$2.88
Retroactive reflection of dividends on preferred shares issued in poolings of interests		(.17)		(.32)
Net income (Note 7)		$1.73		$2.56

The accompanying notes ar

CONSOLIDATED STATEMENTS OF PAID-IN SURPLUS AND RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 1967 and 1966 (Note 2)

	1967	1966
PAID-IN SURPLUS		
BALANCE, BEGINNING OF YEAR, AS RESTATED	$ 1,335,578	$ 1,671,011
Excess of option price over par value of previously unissued common stock or cost of treasury stock sold under option plans	167,470	36,207
Transfer to common stock account for stock distribution of one additional share for every two issued shares	—	(348,304)
Purchase of fractional shares not issued in connection with stock distribution	—	(23,336)
Expenses in connection with poolings of interests	(120,000)	—
BALANCE, END OF YEAR	$ 1,383,048	$ 1,335,578
RETAINED EARNINGS		
BALANCE, BEGINNING OF YEAR, AS RESTATED	$15,172,591	$12,493,494
ADD (DEDUCT):		
Net income for the year	2,306,476	3,209,594
Cash dividends—		
Common ($.64 per share in 1967 and $.51 per share in 1966)	(684,144)	(530,497)
Preferred ($1.97 per share in 1967)	(160,010)	—
BALANCE, END OF YEAR (Note 3)	$16,634,913	$15,172,591

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS FOR THE YEARS ENDED DECEMBER 31, 1967 and 1966 (Note 2)

	1967	1966
SOURCE:		
Net income	$ 2,306,476	$ 3,209,594
Depreciation and amortization	2,226,083	2,084,241
Proceeds from sale of 4³/₈% subordinated convertible debentures	10,000,000	—
Proceeds from subsidiary long-term debt	300,972	108,775
Proceeds from exercise of stock options	182,870	199,727
	$15,016,401	$ 5,602,337
APPLICATION:		
Net additions to plant and equipment	$ 3,242,907	$ 3,067,274
Cash dividends—		
Common	684,144	530,497
Preferred	160,010	—
Investments in affiliated companies	352,056	68,803
Expenses incurred on sale of 4³/₈% subordinated convertible debentures	258,583	—
Other items, net	242,230	134,880
Increase in working capital	10,076,471	1,800,883
	$15,016,401	$ 5,602,337

integral part of these statements.

	1967	1966	1965	1964
OPERATIONAL RESULTS				
NET SALES	$75,156,159	$74,863,181	$60,078,286	$52,559,445
INCOME TAXES	2,793,000	2,990,000	1,647,791	1,506,255
NET INCOME	2,306,476	3,209,594	1,889,697	1,393,315
NET INCOME AS % OF SALES	3.07%	4.29%	3.15%	2.65%
NET INCOME PER COMMON SHARE (1)	$1.73	$2.56	$1.40	$ .95
CASH DIVIDENDS–COMMON	$ 684,144	$ 530,497	$ 371,047	$ 269,705
CASH DIVIDENDS PER COMMON SHARE	$ .64	$ .51	$ .36	$ .26
FINANCIAL POSITION				
CURRENT ASSETS	$31,017,750	$32,099,715	$19,872,088	$15,975,809
CURRENT LIABILITIES	8,747,675	19,906,111	9,488,070	6,667,690
CURRENT RATIO	3.5	1.6	2.1	2.4
WORKING CAPITAL	$22,270,075	$12,193,604	$10,384,018	$ 9,308,119
PROPERTY, PLANT AND EQUIPMENT (Net)	13,844,199	12,784,303	11,770,712	10,755,423
TOTAL ASSETS	46,231,070	45,632,700	32,101,811	27,382,490
LONG TERM DEBT	17,197,713	6,896,741	6,787,966	6,535,214
EARNINGS REINVESTED IN THE BUSINESS	1,462,322	2,679,097	1,467,560	1,113,406
SHAREHOLDERS' INVESTMENT (Net Worth)	19,501,866	18,006,630	15,045,505	13,548,649
GENERAL STATISTICS				
RETURN ON SHAREHOLDERS' INVESTMENT–Beginning	12.81%	21.33%	13.95%	11.20%
RETURN ON INVESTED CAPITAL–Average	12.30%	19.42%	13.22%	10.72%
CAPITAL EXPENDITURES (Excluding acquisitions)	$ 3,242,907	$ 3,067,274	$ 1,853,413	$ 2,923,556
DEPRECIATION & AMORTIZATION	2,226,083	2,084,241	1,834,955	1,594,077
CASH FLOW FROM OPERATIONS	4,532,559	5,293,835	3,724,652	2,987,392
CASH FLOW PER COMMON SHARE	$4.02	$4.74	$3.39	$2.72
COMMON SHARES OUTSTANDING–Average	1,127,747	1,115,755	1,099,695	1,098,683
NUMBER OF SHAREHOLDERS	4,358	4,115	3,965	3,907
NUMBER OF EMPLOYEES	7,069	8,434	6,790	6,193
SALARIES & WAGES	$27,314,729	$26,869,999	$22,246,091	$20,968,997
COMMON STOCK PRICE RANGE	48 3/4 – 18 7/8	30 3/8 – 17	20 7/8 – 10 3/8	14 1/8 – 9 1/2

Where applicable, figures reflect poolings-of-interests treatments of companies acquired during 1967.

(1) After retroactive reflection of dividends on Preferred Shares issued for acquisitions which are treated as poolings of interests.

1963	1962	1961	1960	1959	1958
$42,935,968	$32,974,169	$24,726,286	$18,718,727	$18,946,006	$15,759,887
1,233,575	896,609	706,603	795,000	1,060,000	555,000
1,009,737	968,457	643,072	401,630	1,054,908	594,303
2.35%	2.94%	2.60%	2.15%	5.57%	3.77%
$ .59	$ .56	$ .27	$ .14	$ .79	$ .33
$ 205,201	$ 68,706	65,579	$ 653,869	$ 655,894	$ 721,483
$ .20	$ .07	$ .07	$ .66	$ .66	$ .72
$13,073,978	$11,550,208	$ 7,819,936	$ 7,037,928	$ 7,818,763	$ 8,806,725
6,333,140	5,004,721	2,784,552	2,063,027	2,364,867	1,641,230
2.1	2.3	2.8	3.4	3.3	5.4
$ 6,740,838	$ 6,545,487	$ 5,035,384	$ 4,974,901	$ 5,453,896	$ 7,165,495
9,394,397	8,052,495	5,616,161	4,631,363	2,123,554	2,219,546
23,195,146	20,318,004	13,724,191	11,940,850	12,464,193	11,341,542
4,029,301	3,061,747	225,570	—	—	—
798,169	899,751	577,493	(217,357)	399,014	(127,180)
12,440,564	11,903,836	10,465,629	9,749,823	10,084,326	9,685,312
8.48%	9.25%	6.60%	3.98%	10.89%	6.03%
8.30%	8.66%	6.36%	4.05%	10.67%	6.08%
$ 2,178,438	$ 1,191,187	$ 1,319,734	$ 3,021,966	$ 280,637	$ 187,998
1,316,140	1,059,509	753,523	491,698	389,071	415,496
2,325,877	2,027,966	1,396,595	893,328	1,433,979	1,009,799
$2.10	$1.85	$1.31	$ .90	$1.45	$1.01
1,108,433	1,094,423	1,064,963	992,098	998,223	998,223
3,833	3,993	3,951	4,116	4,169	4,134
4,522	4,133	2,876	2,363	2,248	2,034
$16,518,666	$13,941,168	$11,124,907	$ 9,157,781	$ 8,677,654	$ 7,599,738
11 7/8 – 8 3/8	13 1/8 – 8 1/8	12 1/8 – 9 3/8	13 5/8 – 9 3/8	14 1/4 – 11 1/8	15 – 8

Where applicable, common share data adjusted to reflect 50% stock distribution made on August 12, 1966.

OAK MANUFACTURING CO.	Crystal Lake, Illinois	*Rotary and Pushbutton Switches, Rotary Solenoids, Choppers, VHF, UHF and FM Tuners*
HART-ADVANCE RELAY DIVISION	Elkhorn, Wisconsin	*Military and Industrial Relays*
HART INDIANA	Mishawaka, Indiana	*Tooling, Diemaking and Fabricating*
McCOY ELECTRONICS COMPANY	Mt. Holly Springs, Pennsylvania	*Quartz Crystals, Crystal Filters, Crystal Oscillators, Crystal and Component Ovens*
MARCO-OAK INDUSTRIES	Anaheim, California	*Illuminated Pushbutton Switches, Panel Indicator Lights, Rotary Switches, Snap-in Receptacles*
TECHNO-COMPONENTS CORP.	Van Nuys, California	*Miniature and Wire Wound Trimming Potentiometers and Miniature Test Connectors*
LOS ANGELES MINIATURE PRODUCTS, INC.	Gardena, California	*Miniature and Sub-miniature Incandescent Lamps*
DODGE INDUSTRIES, INC.	Hoosick Falls, New York	*Teflon-coated products (Glass-reinforced tapes, sheet material, coated yarns, spray coating and copper and aluminum clads)*
NALAN, INC.	Woonsocket, Rhode Island	*Plastic Raw Materials*
OAK-HART MANUFACTURING (CANADA) LTD.	Aurora, Ontario, Canada	*Infinite Controls, Snap-in Devices, Hydraulic and Bi-Metal Thermostats, Rotary and Pushbutton Switches*
DIAMOND H CONTROLS LTD.	Norwich, England	*Hydraulic Thermostats, Energy Regulators, Rotary and Toggle Switches, Snap-in Devices, Relays, Oak Rotary and Moduline Switches*
OAK ELECTRO/NETICS HOLLAND N.V.	Emmen, Holland	*Oak Rotary and Moduline Switches*
DIAMOND H SWITCHES (S.A.) PTY., LTD.	Durban, South Africa	*Energy Regulators, Thermostats, Snap-in Devices, Rotary Switches and Indicator Lamps*
OAK ELECTRO/NETICS CORP. (HONG KONG) LTD.	Kowloon, Hong Kong, B. C. C.	*UHF and VHF Television Tuners and FM Radio Tuners*
JAPAN ELECTRO COMPONENTS LTD.	Hachioji City, Tokyo, Japan	*VHF Television Tuners and Related Components*
OAK ELECTRO/NETICS CORP. (JAPAN) LTD.	Kawasaki, Japan	*Sources and Purchases Parts and Components*
O/E/N KOREA	Kyunggi Province, Republic of Korea	*VHF Television Tuners*

POLICIES and OBJECTIVES

EARNINGS

It shall be the objective of O/E/N to obtain a minimum annual return on invested capital of 17 per cent and a minimum profit position of 8 per cent net to sales.

DIVIDENDS

It shall be the policy of O/E/N to distribute cash dividends not to exceed 40 per cent of annual net earnings.

MANAGEMENT

It shall be the policy of O/E/N to encourage autonomous operation of each subsidiary and division within the framework of over-all corporate policies and objectives.

ACQUISITIONS

It shall be the objective of O/E/N to acquire profitable companies in the components and materials field on a basis beneficial to both ownerships.

EMPLOYEES

It shall be the policy of O/E/N to provide an atmosphere for the development of individual employee responsibility and sense of participation in the success of the corporation.

PHILOSOPHY OF LEADERSHIP

It shall be the policy of O/E/N to set a standard of excellence above the level of competition.

BUSINESS

It shall be the policy of O/E/N to confine its business to the components and materials field.

FUTURE

It shall be the objective of O/E/N to achieve recognition as the world's most respected components producer—with engineering, production and marketing capabilities in each and every major world market.

GENERAL OFFICES
Crystal Lake, Illinois

ANNUAL MEETING
The Annual Meeting of the Corporation will be held at its general offices in Crystal Lake, Illinois, at 10:00 A.M., May 3, 1968.

STOCK TRANSFER AGENTS
Continental Illinois National Bank and Trust Company of Chicago
Chicago, Illinois

United States Trust Company of New York
New York, New York

REGISTRARS
The First National Bank of Chicago
Chicago, Illinois

Manufacturers Hanover Trust Company
New York, New York

TRUSTEE UNDER THE DEBENTURES
The Northern Trust Company
Chicago, Illinois

First National City Bank
New York, New York
New York Authenticating Agent

STOCK EXCHANGES
New York Stock Exchange
Midwest Stock Exchange